

# THE EVOLUTION OF PUBLIC AND PRIVATE INVESTMENT IN ZIMBABWE

*Garikai Makuyana\**, *NM Odhiambo\*\**

## Abstract

This paper aims to put the spotlight on the evolution of both public and private investment in Zimbabwe, as they responded to the economic policies implemented from 1965 through to 2011. With the adopted inward-looking policy in 1965, the massive core of infrastructural growth in public investment became a catalyst to the high level of private investment growth. The perpetuated market-intervention policy in 1980 later resulted in the growth of public investment. Despite the adoption of a market economy in the 1990s, the envisaged cut in public investment did not occur. Very few State enterprises had been privatised by the year 2000; and there was a reversal to the market-intervention strategy during the period 2000 to 2011. Notwithstanding the government's efforts to boost both private and public investment in Zimbabwe, the country still faces a number of challenges, as do many other African countries. These challenges include, amongst others: (i) The high national debt overhang; (ii) low business confidence; (iv) liquidity constraints; (v) low industrial competitiveness; and (vi) an inadequate infrastructure.

**Keywords:** Public, Private, Investment, Zimbabwe

\* *Department of Economics, University of South Africa, P.O Box 392, UNISA, 0003, Pretoria, South Africa*  
Email: [49956876@mylife.unisa.ac.za](mailto:49956876@mylife.unisa.ac.za)/[grkmakuyana@gmail.com](mailto:grkmakuyana@gmail.com)

\*\* *Department of Economics, University of South Africa, P.O Box 392, UNISA, 0003, Pretoria, South Africa*  
Email: [odhianm@unisa.ac.za](mailto:odhianm@unisa.ac.za) / [nmbaya99@yahoo.com](mailto:nmbaya99@yahoo.com)

## 1. Introduction

While both policy-makers and economists agree that investment has a positive effect on economic growth, the optimal balance in the split between public and private investment is still an unresolved matter. The empirical questions that still need to be answered are: (i) What is the relative impact of public and private investment on the rate of economic growth? And (ii) what is the relationship between the two components of investment (Nazmi and Ramrez, 1997).

On the one hand, there are views that suggest that public sector investment in the State-owned enterprises (SOEs) – which are highly subsidized, but inefficient – in energy, agriculture, transport, manufacturing, and financial services – has marginalized the private sector from profitable business opportunities; and it still retards the long-run economic growth rates.

On the other hand, there are those who believe that public investment could complement private investment, when this is limited to the economic activities that ensure the full working of a market economy: For instance, public investment in economic and social facilities promotes private sector growth (Ghali, 1998).

There are a number of empirical studies that have been conducted on the relationship between public and private investment; and their relative effects on economic growth which have given rise to mixed findings. For example, the empirical work by Aschauer (1989); Erenburg and Woher (1995); Odedokun (1997); and Pereira (2001, 2003) all suggest that public investment in the basic infrastructural provision complements private investment.

However, the findings of Monadjemi (1993); Zou (2003a, b); Graham (2002); Naraya (2004) all concluded that public investment is a substitute for private investment.

Zimbabwe is a typical economy where the public and private investments have played changing roles in its growth process. The colonial period, 1965 to 1980, was marked by a rise in public investment in activities that complemented private sector growth. Economic growth was high, averaging 6.7%, although it decelerated towards 1980 (Government of Zimbabwe, 1982). Although the private sector vibrancy was maintained during the 1980 to 1990 period, public investment grew rapidly through the acquisition and the creation of the new SOEs.

Initially, the economic growth rates were impressive; but as the effect of the high debt burden and the inefficiency of the SOEs set in, growth rates were reduced to negative values by the end of the 1980s (Government of Zimbabwe, 1991a).

This resulted in the government of Zimbabwe adopting the International Monetary Fund (IMF) backed privatization programme during the 1991 to 2000 period. The aim was to enhance economic efficiency, by cutting back on the SOEs portfolios; however, it did not produce impressive results due to the poor implementation of this exercise. A reversal to the State's economic emphasis was registered during the economic meltdown of the 2000 to 2008; and later, during the 2009 to 2012 period, which resulted in the retention and consolidation of a great number of SOEs (Government of Zimbabwe, 2004; R.B.Z, 2013).

Although both public and private investments have changed roles over time in Zimbabwe, their importance in shaping the current Zimbabwean economy cannot be overstated.

Despite their indispensable roles in the growth process in Zimbabwe, research work on the growth dynamics and the link that exists between public and private investment, is limited (Dailami and Walton, 1989; Jenkins, 1998; Masunungure and Zhou, 2006). The aim of this paper is to put under the spotlight, the evolution of the two components of investment. This will be done by documenting their origin, and by highlighting the relationship that has existed between them in their growth process in the period from 1965 through to the 2011.

## **2. Tracing Public Investment in Zimbabwe – both before and after the Unilateral Declaration of Independence in 1965**

The foundation of public investment in Zimbabwe can be traced from before the Unilateral Declaration of Independence (UDI) in 1965 through to 1980 – during the period of UDI. Initially, before the 1965 UDI, there was a surge in public investment by the colonial government. This was against a background of investment in power generation, railway lines and road construction, the establishment of an iron and steel State company, and the creation of a few marketing boards.

The guiding principle in the rise of public enterprises was to have State investment in those sectors, which were vital to the economy, but unattractive to the private investors. The economic system was also fashioned by the use of market controls and subsidies to the public enterprises. This provided a downstream stimulus growth in private investment in different sections of the economy. For example, by taking advantage of the availability of

power and the railway lines, private investment in the manufacturing industry grew rapidly (Government of Zimbabwe, 1982).

From 1965 to 1980, there was the emergence of the new economic era that shaped public investment. This was a period marked by economic sanctions imposed on the colonial government, following its UDI in 1965. The colonial government, subsequently, developed the economic system that was interventionist and protectionist in nature in the spirit of an import substitution strategy.

### **2.1. The rise of Public Sector Investment in Zimbabwe: 1980-1990**

The new Zimbabwean government at the dawn of independence in 1980 extended the market-intervention economic growth strategy that had been characteristic of its predecessor, the colonial government. This economic strategy was motivated by the need to address the social and economic imbalances created during the colonial era. Hence, the government set out to create an economic growth process that had the active support and participation of the masses through rural sector development, employment creation, and access to the public services.

Public-sector investment growth then became the vehicle through which the government's developmental objectives were to be achieved (Government of Zimbabwe, 1981).

In line with the adopted growth of an equitable economic policy, public sector enterprises were expanded – chiefly through the creation of new enterprises in sectors, such as those in agriculture, mining, manufacturing, health, education, energy, tourism, transport and communication, in addition to banking and finance. Most of the new parastatals created were implemented through the Industrial Development Corporation (IDC), which was formed in 1963 to promote the growth of new investment.

Through the IDC, the State investments grew in the various sectors of the economy to the extent that IDC had 45 investment portfolios, which were wholly or partially owned subsidiaries (Government of Zimbabwe, 1981).

The government's ambitious economic growth with its equity agenda through State enterprise growth was also extended by the Transitional National Development Policy (TNDP) of 1982 (Government of Zimbabwe, 1982). As may be seen in Table 1, the public sector was poised to take a leading role in gross capital formation for the period 1982 to 1985. From the Z \$ 6 096 million cumulative total investment-planned budgets, 59 per cent was to be allocated to the public sector, with the private sector taking the remaining 41 per cent.

**Table 1.** Gross and Gross Fixed-Capital Formation by Sectors (in million of Z\$ at current prices)

	1981	Base Year 81/2	Plan Period				Percentage Share (Total=100)
			82/3	83/4	84/5	Total	
<b>Gross Fixed Capital Formation</b>							
Public Sector			1015	1162	1441	3618	66
Private Sector			431	636	791	1858	44
Total	706	978	1446	1798	2232	5476	100
<b>Increase in Stocks</b>							
Public Sector							
Private Sector			161	206	253	620	100
Total	305	237	161	206	253	620	100
<b>Gross Capital Formation</b>							
Public Sector			1015	1162	1441	3618	59
Private Sector			92	842	1044	2478	41
Total	1011	1215	1607	2004	2485	6096	100

Source: Government of Zimbabwe, 1982

High levels of new capital formation were also necessary, given the physical damage incurred by the infrastructure during the liberation war of independence. It was planned that two thirds of the cumulative planned-investment funds would go towards repair, maintenance, modernization and refurbishing; while a third would go towards new infrastructure (Government of Zimbabwe, 1982).

The allocation of investment resources by the industrial sector for the 1982-1985 planning horizon also reflected the then ongoing economic philosophy – balanced economic growth and development. As

illustrated in Table 2, the growing share of the level of investment in electricity and water, agriculture and rural development, transport and communication over the period was heavily propelled by the growth in public investment. Both transport and power infrastructures were identified as being crucial to efficiency in future production. The agricultural sector, which was domiciled by the peasant sub-sector, provided the large catchment of participants, where growth with equity consideration could be achieved through adequate public-sector investment (Government of Zimbabwe, 1982).

**Table 2.** Gross Fixed Capital Formation by the Industrial Sector (In millions of Z\$ at constant 1981 prices)

	1982	Base Year 81/2	Plan Period				Average Annual Percentage Change	Index 1984/5 1981/2 =100
			82/3	83/4	84/5	Total		
Agriculture, Livestock and Forestry	85	119	152	164.5	177.5	494	14.3	149.2
Manufacturing and Quarrying	106	105	87	94	101	282	-1.3	96.2
Manufacturing	155	191	265	286	309.5	861	17.5	162.0
Electricity and Water	57	68	86	93	101	280	14.1	148.5
Construction	11	18	29.5	31.5	34	95	23.6	188.9
Distribution, Restaurants and hotels	14	27	69	74.5	80.5	224	43.9	298.1
Transport and Communication	56	100	166.5	180	193.5	540	24.6	193.5
<b>Material Production Total</b>	<b>484</b>	<b>628</b>	<b>835</b>	<b>924</b>	<b>997</b>	<b>2776</b>	<b>16.7</b>	<b>158.8</b>
Housing	113	145	167	181	195	543	11.0	134.5
Education	18	31	45.5	49	53.5	148	68.4	477.4
Health	11	14	18.5	20.5	22	61	16.3	157.1
Public Administration	49	60	52	56	60	168	0.0	100.0
Finance and Insurance	17	18	20.5	22	23.5	66	9.3	130.6
Other Services	14	14	11.5	12.5	14	38	0.0	100
Non-Material Production Total	222	282	315	341	368	1024	9.3	130.5
(Excluding Housing)	(109)	(137)	(148)	(160)	(173)	(481)	(8.1)	(126.3)
Total Gross Fixed Capital Formation	706	910	1170	1265	1365	3800	14.5	150.0

Source: Government of Zimbabwe, 1982

As may be seen in Table 2, a total of Z \$ 5 476 million gross fixed capital formations were planned for the all industrial sectors. Material production was expected to take up 73 per cent of the planned investment expenditure. Manufacturing, construction and distribution, transport and communication, restaurants and hotels in the material-production subsector were to increase their shares in the total amount of gross fixed capital formation over the planning period; while electricity, water and agriculture were to maintain their shares. But the mining sector's share was to be reduced. In the non-material sector, the shares of education and health were to rise; while the shares of all the other subsectors were to be reduced (Government of Zimbabwe, 1982).

While the share of gross fixed capital formation in agriculture and rural development was to be maintained during the planning period, its ratio of 13 per cent of the total for all sectors was relatively high. This reflected the high priority assigned to the sector in addressing the colonial infrastructural imbalance which was to be corrected through high levels of public-sector investment. The manufacturing sector, which was largely private-sector driven, was envisaged to benefit immensely from the opportunities created by large public investment outlays and the high economic growth rates (Government of Zimbabwe, 1982).

Even though the TNDP emphasized the growth in public enterprises to achieve the government developmental objectives, it also recognized the important role played by the private sector – especially in material production. In that regard, it created the requisite incentives that promoted growth in the private sector. This was in line with the framework of government objectives and priorities, which were:

- Balanced economic growth;
- Development of growth points and similar rural areas, and the decentralization of industries;
- Value addition on the exportable raw materials; and
- Greater labour productivity, together with the use of appropriate technology and local raw materials, in the economy (Government of Zimbabwe, 1982).

Thus, while the vibrancy of the private sector enterprises was enhanced, in parallel the public enterprises sector expanded from the 20 per cent of the 1980s to over 40 per cent of the entire economic activities in 1990. These State enterprises were set up for different purposes. These included:

developmental, commercial, promotional and regulatory issues. However, the faster growth in public investment – than in private investment that occurred during the 1980 to 1990 – was achieved through the system of subsidy policy – which was deficit-financed (Government of Zimbabwe, 1982).

## **2.2. Public Investment in the 1991 to 2012 period**

Negative economic growth rates that were caused by the inefficiency of SOEs and the marginalizing of the private sector by the public sector in resource allocation resulted in the government re-considering adopting the free-market economic system. The adopted commercialization and privatization of the SOEs that happened during the 1991 to 2000 period resulted in the limited growth of public investment. This growth was limited to the SOEs that had portfolios in the basic infrastructural provision.

However, following the huge economic meltdown that started from 2000 through to 2008 in Zimbabwe, the State reverted to the market-intervention policies. The State believed that the then ongoing economic decline could be reversed by capacitating SOEs. This economic philosophy resulted in the halting of privatization programme that had been started in 1991. Instead, a State-enterprise restructuring policy was adopted (RBZ, 2007).

The emphasis during the State enterprises restructuring exercise was to unbundle and fully commercialize the parastatals that had not yet been unbundled. This resulted in a number of parastatals taking this route, for example: The Zimbabwe Electricity Supply Authority (ZESA) was unpackaged into five separate subsidiaries, namely, the Zimbabwe Electricity Transmission Company (ZETC), the Zimbabwe Power Company (ZPC), the Power Tel, the Zimbabwe Electricity Distribution Company (ZEDCO), and the ZESA parent enterprise (Government of Zimbabwe, 2009).

The State-enterprise restructuring exercise was also perpetuated by the incoming new inclusive government in 2009. In the new unity government, State enterprises were identified as drivers of the national socio-economic objectives (Government of Zimbabwe, 2009). This means that the still high portfolios of the State enterprises were maintained during the tenure of the inclusive government (2009-2013). There were 78 State companies and parastatals that were restructured (as can be seen in Tables 3a and 3b).

**Table 3a.** List of Parastatals with 100% Government Shareholding

	Public Enterprise	Government Shareholding
1	National Railway of Zimbabwe	100%
2	ZESA	100%
3	Cold Storage Commission (CSC)	100%
4	NOCZIM	100%
5	Zimbabwe National Water Authority	100%
6	ARDA	100%
7	Netone	100%
8	Telone	100%
9	CMED	100%
10	Air Zimbabwe	100%
11	Zimbabwe Mining Development Corporation	100%
12	Grain Marketing Board	100%
13	Industrial Development Corporation	100%
14	District Development Fund	100%
15	Minerals Marketing Corporation of Zimbabwe	100%

Source: RBZ, 2007

**Table 3b.** Government Stake through the Reserve Bank of Zimbabwe (RBZ) Shareholding

	Enterprise	Government Stake Through RBZ Shareholding
1	Aurex	100%
2	Cairns Foods	65%
3	Tractive Power Holding	65%
4	Sirtech	60%
5	Homelink	100%
6	Dairiboard	21%
7	Cotton Company of Zimbabwe	7%
8	Export Credit Guarantee Company	100%
9	St Lucia Park	50%
10	Astra Holding	66%
11	Old Mutual	8%
12	Fidelity Printers and Refineries	100%
13	Tuli Coal	70%
14	Infrastructure Development Bank of Zimbabwe	16.75%

Source: RBZ, 2007

As can be seen in Tables 3a and 3b, the portfolio of State enterprises did not significantly decrease, after the inception of the privatization exercise in 1991. Besides holding portfolios of State enterprises in the justifiable core sectors, like the energy, transport (national railways) and water, the State had other portfolios in the commercial activities that were in direct competition with the private-sector enterprises.

### 3. Private Investment in Zimbabwe: 1965 to 1990

Private investment in Zimbabwe can also be traced – starting from the UDI period, 1965 to 1980. Although the colonial government had adopted the highly market-interventionist policies during the period, these did not crowd out growth in the private sector. This was largely so, because the State's economic participation was mainly focused on economic activities that aided the growth of private investment.

The adopted inward-looking economic strategy benefited the growth of the private enterprises. For example, private farmers (although they were mostly whites), through the established agricultural parastatal accessed subsidized inputs, credit facilities, and had a guaranteed market for their produce.

In the same way, the protectionist tariffs helped in the growth of the private manufacturing industries, as they were shielded from any external competition (Seidman, 1986).

At the dawn of independence in 1980, the Zimbabwean government extended the State-intervention policies that had shaped the growth path of private investment for the decade that was to follow. Unlike its predecessor government, the growth in public sector investment extended to commercial activities that posed direct competition with the private sector enterprises. For example, the creation of the new State enterprises of manufacturing, finance, mining and commercial agriculture crowded out the private sector growth in

product-market opportunities (Government of Zimbabwe, 1991a).

Private investment growth was also marginalized in resource-allocation during the period from 1980 to 1990. The growth in high public investment that was made possible by the subsidy policy was financed by borrowing from the domestic market. The continued borrowing in the wake of the growing inefficiency and financial losses of State enterprises – especially at the end of the 1980s – denied the private enterprises enough and affordable resources to finance their viable business ventures (Government of Zimbabwe, 1991a).

Although the public sector grew phenomenally during the period, the created mixed economic system maintained the vibrancy of the private sector. For example, the private sector efficiency greatly improved in the background of the State's high investment in human capital services, such as health and education. However, in the wake of the State enterprises' inefficiencies and losses, which were weighing down on economic growth rates, the government of Zimbabwe was forced to adopt free-market policies at the end of the 1980s (Government of Zimbabwe, 1991a).

### ***3.1. The Commercialization and Privatization of State Enterprises through the Economic Structural Adjustment Programme (1991-1996)***

Following the heavy financial losses of public enterprises, and the subsequent high government debt to Gross Domestic Product (GDP) ratio, which was weighing down on economic growth rates, the Zimbabwean government adopted market reforms in 1991 under the auspices of the IMF and World Bank-backed Economic Structural Adjustment Programme (ESAP) (Government of Zimbabwe, 1991a).

The principal objective of the ESAP was to remove all the market-intervention practices of the old economic policy regime that stood in the growth path of the private sector enterprises. The ultimate goal was to position the private sector, as the engine of the economic growth process in Zimbabwe. Thus, some of the critical reforms implemented that enabled the operation of market forces, included the following: Trade liberalization; domestic deregulation; financial sector and monetary-policy liberalization; fiscal policy, as well as tax changes and labour-market liberalization.

These reforms were implemented in parallel with the public enterprises reforms that were designed to start with the commercialization of the identified State-owned enterprises in preparation for their full privatization (Government of Zimbabwe, 1991a).

#### ***3.1.1. Public Enterprise Reform***

As part of ongoing economic reforms, the government of Zimbabwe in 1991 started the privatization of public enterprises, in order to eliminate the budget deficit, and to enhance economic efficiency (Government of Zimbabwe, 1991b). In preparation for their full privatization, the State enterprises were to first undergo the commercialization process – to wean them off from the government protection, and to expose them to the competitive environment. Thus, the parastatals were given autonomy in their micro-decision-making on issues, such as hiring and firing, investment and price setting.

The fully commercialized State enterprises were then registered as private limited companies with a 100% government ownership. The government of Zimbabwe was set to benefit from this arrangement through revenue collection. The newly commercialized State enterprises were expected to pay tax that would improve the government's resource base. The government's propensity to borrow from the foreign and domestic capital markets to support the parastatals was also expected to fall, as they were now autonomous entities. The commercialization of the State enterprises was envisaged to result in the release of more resources towards the productive activities in the economy (Government of Zimbabwe, 1991b).

To accelerate the commercialization and privatization programme, the inter-ministerial committee was set up in 1994. It was tasked to come up with a policy paper on how it would proceed with the commercialization and privatization of State enterprises. Hence, it adopted the trenching approach, in which State enterprises were grouped into three major tranches. Tranche 1a was composed of State enterprises in the social function and these were to be retained as parastatals. Tranche 1b was composed of State enterprises that performed a promotional function; and these were also to be retained. Tranche 2 was composed of State enterprises, which were strategic to the government and were to remain as government owned.

The State enterprises in the first two tranches were the candidates for full commercialization only. The third tranche consisted of State enterprises in commercial activities, and these were candidates for commercialization, and then for privatization exercise (Privatization Agency of Zimbabwe, 2002).

The agricultural sector was one of the areas where the restructuring and commercialization was significant after the tranching of State enterprises. The cases in point are: the Cotton Marketing Board (CMB); the Dairy Marketing Board (DMB); the Grain Marketing Board (GMB); and the Cold Storage Commission (CSC). These agricultural parastatals were subjected to a fast-track reform process – in order to achieve high levels of operating efficiency.

After commercialization, the State enterprises were incorporated as private companies. These were 100% government-owned companies. In assuming their new legal status, the CMB became the Cotton Company of Zimbabwe (Cottco); the DMB became the Dairiboard Zimbabwe Ltd (DZL); and the CSC became the Cold Storage Company (CSC).

In addition, the government of Zimbabwe assumed the Z\$4 billion debt of these three major agricultural State enterprises (Government of Zimbabwe, 1998).

### **3.1.2. Enhanced Privatization under the Zimbabwe Programme for Economic and Social Transformation (1996-2000)**

At the end of the first phase of commercialization, under the ESAP in 1995, there was no public enterprise in Zimbabwe that was ready for privatization. In fact, the conditions that were responsible for the ineffectiveness and inefficiency of the public enterprises were still prevalent. Although the commercialized State enterprises were registered as private companies under the companies Act, they were still governed by their line ministries through the Act of Parliament (Government of Zimbabwe, 1998).

On the positive side though, there was a significant reduction in the financial deficit of the aggregate public enterprises. The financial losses, which amounted to Z\$4 707 million in the 1992/93 financial year were reduced to Z\$ 648 million in the 1993/94 financial year (Government of Zimbabwe, 1998). In general, the commercialization and privatization targets during the ESAP were not met.

The government of Zimbabwe then came up with the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) – to take over from the ESAP, and to finish the privatization exercise. Completing the public enterprise reform through the restructuring, rationalization and privatization of public enterprises became the core mandate of the ZIMPREST. To step up the reform process, a timetable for the divestiture of State enterprises – consisting mostly of those whose Acts of Parliament were still in force – was formed.

Notable progress was registered, however, in the second phase of privatization (1996-1999), compared to the first phase. From a total of 40 State enterprises that were planned for divestiture, five were successfully privatised. These were: the Commercial Bank of Zimbabwe (CBZ); the Dairiboard Zimbabwe Limited (DZL); the Zimbabwe Reinsurance Company (ZIMRE); the Zimbabwe Tourism Group of Companies (RTG); and the Cotton Company of Zimbabwe (Cottco).

The first State enterprises to be privatised were the DZL, Cottco and CBZ in 1997. ZIMRE and the RTG were later privatised in 1999. The State, however, retained some minority stake in all the

privatization exercises concluded (Government of Zimbabwe, 2000).

However, in comparison to the first phase of privatization, some progress was made in the second phase. Nevertheless, the rate of this privatization fell short of the expectations of the stakeholders – who included the World Bank and the IMF. This slow rate of progress resulted in the formation of the Privatization Agency of Zimbabwe (PAZ) in 1999. It was to take over the privatization business from the 1994 established inter-ministerial subcommittee of the cabinet (RBZ, 2007). It was to manage and lead the privatization exercise – with the following roles:

- By working in liaison with line ministries and parastatals, to help, support and speed up the privatization programme;
- To ensure the smooth flow of progress subject to the approval of the inter-ministerial committee on privatization on the plan of divestiture;
- To ensure that all the privatization processes are successful; and
- To ensure that the privatization processes led to job creation and foreign currency earnings for Zimbabwe (RBZ, 2007).

### **3.2. Private Investment in Zimbabwe: 2000 to 2012**

Continued privatization through PAZ of the remaining SOEs was planned for the period beyond 2000. However, with the deterioration of the economy that was starting to set in, after the fast-track land-reform programme, its progress stalled. In fact, in the face of the worsening economic situation, private investment growth was negative for the years running up to 2008. Full and efficient operation of the private enterprises was handicapped by the high inflation rates, high interest rates, the high importation cost of raw materials, and the political uncertainty.

The growth prospects of private investment, however, improved with the coming of the unity government in 2009. Business confidence improved from 2009 to 2012, which resulted in positive growth in the formation of new private businesses.

## **4. Challenges Facing Public and Private Investment in Zimbabwe**

Even though the Zimbabwean government launched a one-stop shop in 2010 – to reduce the new business formation period from more than 50 days to 11 days – there are still a number of investment growth constraints that need to be addressed. The challenges that affect private and public investment growth in Zimbabwe include: (i) The lack of clarity in the policy environment that emanates from implementation inconsistencies, particularly in regard to the regulations of economic empowerment and indigenization; (ii) the high national debt overhang,

which has reduced the country's creditworthiness that has resulted in highly priced lines of credit; (iii) low business confidence; (iv) liquidity constraints that have starved long-term finance to the productive sectors; (v) low industrial competitiveness, due to the use of outdated technology and obsolete equipment; (vi) poor and inadequate infrastructure, particularly in energy, water, health and transport; (vii) the general inefficiencies in the public enterprise; and (viii) the low and unpredictable rain pattern (Government of Zimbabwe, 2014; R.B.Z, 2013; A.F.D.B,2012).

Although the prevalence of these challenges cuts across all the various sectors in Zimbabwe, they are more severely felt by enterprises in the mining, agricultural, manufacturing, and the construction sectors – the pillars of the country's economy. For example, growth in these sectors has been hampered by the scarcity of long-term and cheap finance – principally, because of the country's high risk premium – which has been caused by the huge debt overhang and policy inconsistencies. These issues have greatly undermined the industrial competitiveness in Zimbabwean enterprises through, for instance, the inability to invest in modern technology, in power generation and in hiring skilled labour.

## **5. Conclusion**

This paper has discussed the growth dynamics of public and private investment from 1965 to 2011. Five broad economic periods were identified, which influenced the growth trends of the two components of investments. These are: (i) The rise in public enterprise growth during the UDI (1965-1980); (ii) the extended growth in public enterprise after independence (1980-1990); (iii) the first phase of privatization under ESAP (1991-1995); (iv) the second phase of privatization under ZIMPREST (1996-2000); and (v) the State enterprise restructuring (2000-2011).

Following the UDI in 1965 to 1980, the adopted import-substitution economic growth strategy resulted in massive public enterprise growth which became a stimulus tool to self-grow the economy. Taking advantage of the basic infrastructure provided, private enterprises grew during the period, creating a vibrant mixed-economic system. The economic growth in response to the economic formation was also positive, averaging 6.5%.

There was an interruption to the growth trend, however; and this was realized during the 1977 to 1979 period, when the physical infrastructure was destroyed – due to the intensification of the war of liberation. In order to correct the economic imbalance inherited from the colonial rule, the government extended the market-intervention policies from 1980 to 1990. Public-enterprise growth was regarded as the vehicle through which the government was to achieve its developmental objective – growth with equity.

Partly because of the huge infrastructural gap that was inherited, the economic growth rates were impressive – following the massive public investment in utilities.

The limit to this growth buoyancy was, however, reached when the marginalization of the private sector set in, as the public enterprise growth was largely debt-financed. The huge financial losses of most parastatals that also followed reversed the high economic growth rates that had initially been achieved. As with most other African economies during that time, the economic crisis that was developing in Zimbabwe – as a result of the huge debt burden and public enterprises inefficiencies, forced the government to adopt the free market policies in the spirit of ESAP in 1991.

Through the privatisation programme, which was central to ESAP, the efficiency of the identified State enterprises was to be enhanced by their commercialisation – before their final sale to the private sector. Although no sale was concluded by the end of the first phase of privatisation in 1995, the result of the exercise was evident: the growth of public enterprises was suppressed. The growth of private enterprises picked up instead; and the economic growth rates were high.

The growth in private investment was further enhanced through ZIMPREST, during the 1996 to 2000 period. In relative terms to the Malawian and Zambian counterparts, the Zimbabwean privatisation exercise was less successful. Out of a total of 40 enterprises planned for divestiture, only five were successfully dispossessed. With the setting in of the economic meltdown from 2000 to 2008, following the fast-track land-reform programme in 2000, the privatisation exercise also slowed down.

In contrast to the ongoing spirit of privatisation, the government's emphasis changed to the restructuring of the State enterprises – dismantling them into small units, which were then subjected to commercialisation. Although the high portfolio of the State enterprises was maintained, the new unity government that was installed in 2009 stimulated investor confidence; and this helped to reverse the negative economic growth that had bottomed in 2008.

Although it may be argued that the Zimbabwean economy is a mixed system, it is important to point out that, besides holding high portfolios in the basic infrastructural enterprises, the State still actively participates in the commercial activities that directly compete with those of the private-sector enterprises.

Overall, this study finds that, despite the government's efforts to boost both private and public investment in Zimbabwe, the country still faces a number of challenges, as do many other African countries. These challenges include, amongst others: (i) The high national debt overhang; (ii) low business confidence; (iv) liquidity constraints; (v) low industrial competitiveness; and (vi) an inadequate infrastructure



## References:

1. AF.D.B (African Development Bank). 2012. African Economic Outlook- The case of Zimbabwe. African Development Bank.
2. Aschauer, D. 1989. "Is Public Expenditure Productive?" *Journal of Monetary Economics*, 23(1), 177-200.
3. Dailami, M. and Walton, M. 1989. Private Investment, Government Policy and Foreign Capital in Zimbabwe. World Bank Working Papers, Number WPS 248.
4. Erenburg, S.J. and Wohar, M.E. 1995. "Public and Private Investment: Are there casual linkages." *Journal of Macroeconomics*, 17(1), 1-30.
5. Ghali, K.F. 1998. Public Investment and Private Capital Formation in a Vector Error- Correction Model of Growth. *Applied Economics*, 30(6), 837-844.
6. Graham, M.V. 2002. "Public and Private Investment in United States and Canada." *Economic Modelling*, 29(4), 641-64.
7. Government of Zimbabwe. 2014. Budget Statement. Ministry of Finance and Economic Development. Harare, Government Printers.
8. Government of Zimbabwe. 2009. Budget Statement. Ministry of Finance and Economic Development. Harare: Government Printers.
9. Government of Zimbabwe. 1998. Zimbabwe Programme for Economic and Social Transitional (ZIMPREST). Harare: Government Printers.
10. Government of Zimbabwe. 1991a. Framework for Economic Reform, 1991-1995. Harare, Government Printers.
11. Government of Zimbabwe. 1991b. Economic Structural Adjustment Programme. Ministry of Finance and Economic Development. Harare: Government Printers.
12. Government of Zimbabwe. 1982. Transitional National Development Plan, 1982/83-1984/85. Volume 1. Harare, Government Printers.
13. Jenkins, C. 1998. Determinants of Private Investment in Zimbabwe. *Journal of African Economies*, 7(1), 34-61.
14. Masunungure, E. and Zhou, G. 2006. An Analysis of the Objectives and Effects of Privatisation on the Public Sector on the Role of the State in Zimbabwe. Zimbabwe Coalition on Debt and Development (ZIMCODD) and the Southern Africa Peoples' Solidarity Network (SAPSN).
15. Monadjemi, M. 1993. Fiscal Policy and Private Investment Expenditure: Study of Australia and the United States. *Applied Economics*, 25, 143-8.
16. Narayan, P.K. 2004. "Do Public Investment Crowds Out Private Investment? Fresh Evidence from Fiji.?" *Journal of Policy Modelling*, 26(6), 747-753.
17. Nazmi, N. and Ramirez, M.D. 1997. Public and Private Investment and Economic Growth in Mexico. *Contemporary Economic Policy*, Vol XV, 65-75.
18. Odedokun, M.O. 1997. Relative Effects of Public versus Private Investment Spending on Economic Efficiency and Growth in Developing Countries. *Applied Economics*, 29(10), 1325-1336.
19. Pereira, A.M. and Andraz, J.M. 2003. "The Effects of Public Investment on Private Investment on Different US Industries." *Public Finance Review*.
20. Privatisation Agency of Zimbabwe. 2002. Privatisation in Zimbabwe. PAZ Newsletter, Issue number 1.
21. Pereira, A.M. 2001. On the Effects of Public Investment on Private Investment: What Crowds in What? *Public Finance Review*, 29(1), 3-25.
22. R.B.Z (Reserve Bank of Zimbabwe). 2013. Monetary Policy Statement Presented on 31 January 2013. Reserve Bank of Zimbabwe.
23. R.B.Z (Reserve Bank of Zimbabwe). 2007. Unlocking Value Through Privatisation of Targeted Public Enterprises: Supplement to the January 2007 Monetary Policy Review Statement. Reserve Bank of Zimbabwe.
24. Seidman, A. 1986. Money, Banking and Public Finance in Africa. London. Zed.
25. Zou, Y. 2003a. A Comparative Study of Japan and US Economic Performance; Its Relationship with Public and Private Investment. The 60<sup>th</sup> annual meeting of Japan Economic Policy Association, Mimeo.
26. Zou, Y. 2003b. On the Relationship Between Public and Private Investment: An Empirical Study of Japan. *Journal of Economic Policy Studies*, 1, 18-29.